

# Microeconomic Final Exam Questions And Answers

Economics 212

Microeconomic Principles

Exam No. 3

Date: 7 or 9 May 2012

Name \_\_\_\_\_

Instructor: Brian B. Young

The value of this exam is 100 points

Please show your work where appropriate!

Multiple Choice

2 points each

#1

The factors of production are

- a. the levels of technology used to produce goods.
- b. labor, capital, land, and entrepreneurship.
- c. firms, consumers, markets, and government.
- d. a techno dance band from Dusseldorf.

#2

Which of the following is a difference between perfect competition and monopolistic competition?

- a. Perfect competition has a large number of independently acting sellers.
- b. In monopolistic competition, entry into the industry is unblocked.
- c. Only firms in monopolistic competition can earn an economic profit in the short run.
- d. Firms in monopolistic competition compete on their product's price as well as its quality and marketing

#3

Which of the following is a distinguishing characteristic of oligopolies?

- a. a standardized product
- b. the goal of profit maximization
- c. the interdependence among firms
- d. downward-sloping demand curves faced by firms

#4

A monopsony is

- a. A market structure in which there is only one seller
- b. A market structure in which there is only one buyer

Page 1 of 7

**Microeconomic final exam questions and answers** are crucial for students seeking to demonstrate their understanding of microeconomic concepts and principles. Microeconomics focuses on individual agents, such as consumers and firms, and how they make decisions based on limited resources. This article will delve into common types of questions that appear on microeconomic final exams, provide detailed answers, and explore the underlying concepts. By familiarizing yourself with these questions, you can enhance your preparation and boost your confidence leading up to the exam.

# Types of Microeconomic Questions

Microeconomic final exam questions can be categorized into several types. Understanding these categories can help students anticipate what types of questions may appear on their exams.

## 1. Multiple Choice Questions

Multiple choice questions (MCQs) often assess fundamental concepts and definitions. They may require students to identify the correct answer from a set of options. For example:

- What is the law of demand?
- A) As price increases, quantity demanded increases
- B) As price decreases, quantity demanded decreases
- C) As price increases, quantity demanded decreases
- D) There is no relationship between price and quantity demanded

Answer: C) As price increases, quantity demanded decreases. This reflects the inverse relationship between price and quantity demanded, a fundamental principle of microeconomics.

## 2. Short Answer Questions

Short answer questions require students to provide concise responses, often involving explanations of specific concepts. For instance:

- Explain the concept of elasticity of demand.

Answer: Elasticity of demand measures how responsive the quantity demanded of a good is to a change in its price. It is calculated as the percentage change in quantity demanded divided by the percentage change in price. If the elasticity is greater than 1, demand is considered elastic; if it is less than 1, demand is inelastic; and if it equals 1, demand is unitary elastic.

## 3. Problem-Solving Questions

These questions often require students to apply concepts to solve mathematical problems. For example:

- If the price of a product is \$50 and the quantity demanded is 100 units, what is the total revenue?

Answer: Total revenue is calculated by multiplying the price by the quantity demanded. Therefore, Total Revenue = Price x Quantity = \$50 x 100 = \$5000.

# Key Concepts in Microeconomics

To effectively tackle final exam questions, students should have a solid understanding of core microeconomic concepts. Below are some essential topics:

## 1. Supply and Demand

The law of supply and demand is central to microeconomics. It explains how market prices are determined through the interaction of supply and demand.

- Demand Curve: Represents the relationship between price and quantity demanded.
- Supply Curve: Represents the relationship between price and quantity supplied.
- Equilibrium Price: The price at which quantity demanded equals quantity supplied.

## 2. Consumer Behavior

Understanding consumer behavior is vital for analyzing how individuals make purchasing decisions.

- Utility: The satisfaction or pleasure derived from consuming a good or service.
- Marginal Utility: The additional satisfaction gained from consuming one more unit of a good or service.
- Indifference Curves: Graphical representations of different combinations of goods that provide the same level of utility to a consumer.

## 3. Production and Costs

Firms must understand production processes and cost structures to maximize profits.

- Production Function: Shows the relationship between inputs (labor, capital) and output.
- Fixed and Variable Costs: Fixed costs do not change with output levels, while variable costs do.
- Marginal Cost: The additional cost incurred from producing one more unit of output.

## 4. Market Structures

Microeconomics examines various market structures, which affect pricing and output decisions.

- Perfect Competition: Many firms, identical products, and free entry and exit.
- Monopoly: A single firm controls the market with no close substitutes.
- Oligopoly: A few firms dominate the market, often leading to collusion.
- Monopolistic Competition: Many firms sell similar but differentiated products.

# Sample Questions and Answers

To further prepare students for their final exams, here are sample questions along with their answers.

## 1. Question on Price Elasticity of Demand

- Calculate the price elasticity of demand if the price of a good increases from \$20 to \$30, and the quantity demanded decreases from 150 units to 100 units.

Answer:

Price elasticity of demand (PED) = (% Change in Quantity Demanded) / (% Change in Price)

1. % Change in Quantity Demanded =  $(100 - 150) / 150 = -0.33$
2. % Change in Price =  $(30 - 20) / 20 = 0.5$
3. PED =  $-0.33 / 0.5 = -0.66$

The price elasticity of demand is -0.66, indicating that the demand is inelastic.

## 2. Question on Cost Analysis

- A firm produces 200 units of output at a total cost of \$4000. Calculate the average total cost (ATC).

Answer:

Average Total Cost (ATC) = Total Cost / Quantity of Output

ATC =  $\$4000 / 200 = \$20$  per unit.

## 3. Question on Market Equilibrium

- If the demand equation is  $Q_d = 100 - 2P$  and the supply equation is  $Q_s = 3P$ , find the equilibrium price and quantity.

Answer:

At equilibrium,  $Q_d = Q_s$ .

1. Set the equations equal:  $100 - 2P = 3P$
2. Solve for P:  $100 = 5P \Rightarrow P = \$20$
3. Substitute P back to find Q:  $Q_d = 100 - 2(20) = 60$

The equilibrium price is \$20, and the equilibrium quantity is 60 units.

# Preparation Tips for Microeconomic Exams

To excel in microeconomic final exams, students should consider the following preparation tips:

1. Review Key Concepts: Revisit all major topics, including supply and demand, elasticity, production, and market structures.
2. Practice with Past Papers: Work through previous exam questions to familiarize yourself with the format and types of questions.
3. Create Study Aids: Use flashcards or charts to summarize important concepts and formulas.
4. Form Study Groups: Collaborating with peers can help clarify difficult concepts and provide different perspectives.
5. Consult Resources: Utilize textbooks, online resources, and study guides for additional practice and explanations.

In conclusion, understanding microeconomic final exam questions and answers is vital for success in the subject. By focusing on key concepts, practicing problem-solving, and preparing effectively, students can enhance their knowledge and improve their performance on exams. Mastering these areas will not only help in academic settings but also provide valuable insights into real-world economic behavior.

## Frequently Asked Questions

### What is the difference between microeconomics and macroeconomics?

Microeconomics focuses on individual agents, such as households and firms, and their decision-making processes, while macroeconomics examines the economy as a whole, including aggregate indicators like GDP, unemployment rates, and inflation.

### What is meant by 'opportunity cost' in microeconomics?

Opportunity cost refers to the value of the next best alternative that is forgone when a choice is made. It highlights the trade-offs involved in decision-making.

### How do supply and demand affect market equilibrium?

Market equilibrium is achieved when the quantity supplied equals the quantity demanded at a certain price. If demand increases, prices tend to rise until a new equilibrium is reached; conversely, if supply increases, prices may fall.

### What is a price ceiling, and how does it impact the market?

A price ceiling is a maximum price set by the government for a particular good or service. It can lead to shortages if the ceiling is below the market equilibrium price, as demand exceeds supply.

## What are the assumptions of the law of demand?

The law of demand assumes that all other factors remain constant (*ceteris paribus*), and that as the price of a good decreases, the quantity demanded increases, and vice versa.

## What is the significance of elasticity in microeconomics?

Elasticity measures how responsive the quantity demanded or supplied is to changes in price. It helps businesses and policymakers understand consumer behavior and make informed pricing decisions.

## What are externalities, and how do they affect market outcomes?

Externalities are costs or benefits of a market activity that affect third parties not involved in the transaction. Positive externalities can lead to underproduction, while negative externalities can result in overproduction, leading to market failure.

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